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## Interim Report – Q1 2017

Very satisfactory start to 2017

3 May 2017

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## Highlights for Q1 2017

### Key points

Very satisfactory start to 2017

### Profit

Profit of DKK 447m – ROE of 15.5% p.a. after tax

### Core income

Core income of DKK 1,053m – on a par with Q1 2016

### Income

Income of DKK 1,146m – up by 4% compared with Q1 2016

### Costs

Up by 1% compared with Q1 2016

### Impairment charges

Impairment charges of DKK 11m – reduced by 71% compared with Q1 2016

### Bank loans

Effectively a DKK 0.4bn rise in bank loans and advances, equal to 0.5% in Q1 2017

### Capital

CET1 ratio of 15.6% – down by 0.5 percentage points compared with Q4 2016

### Share buyback

At end-Q1 purchases of DKK 83m of current buyback totalling DKK 664m

## Core income – transfer of DKK 20m from Net interest income etc to Mortgage credit

DKKm	Q1 2017	Q1 2016	Index	Q1 2017	Q4 2016	Index
Net interest income etc	519	588	88	519	574	90
Mortgage credit*	131	88	149	131	108	121
Payment services	48	46	104	48	50	96
Remortgaging and loan fees	32	26	123	32	3	-
Commission and brokerage	103	95	108	103	93	111
Commission etc investment funds and pooled pension plans	102	95	107	102	95	107
Asset management	56	45	124	56	77	73
Custody fees	18	18	100	18	18	100
Other income	44	49	90	44	49	90
<b>Total</b>	<b>1,053</b>	<b>1,050</b>	<b>100</b>	<b>1,053</b>	<b>1,067</b>	<b>99</b>
* Set-off of loss Totalkredit	9	4	225	9	7	129

### Key points Q1 17 vs Q1 16:

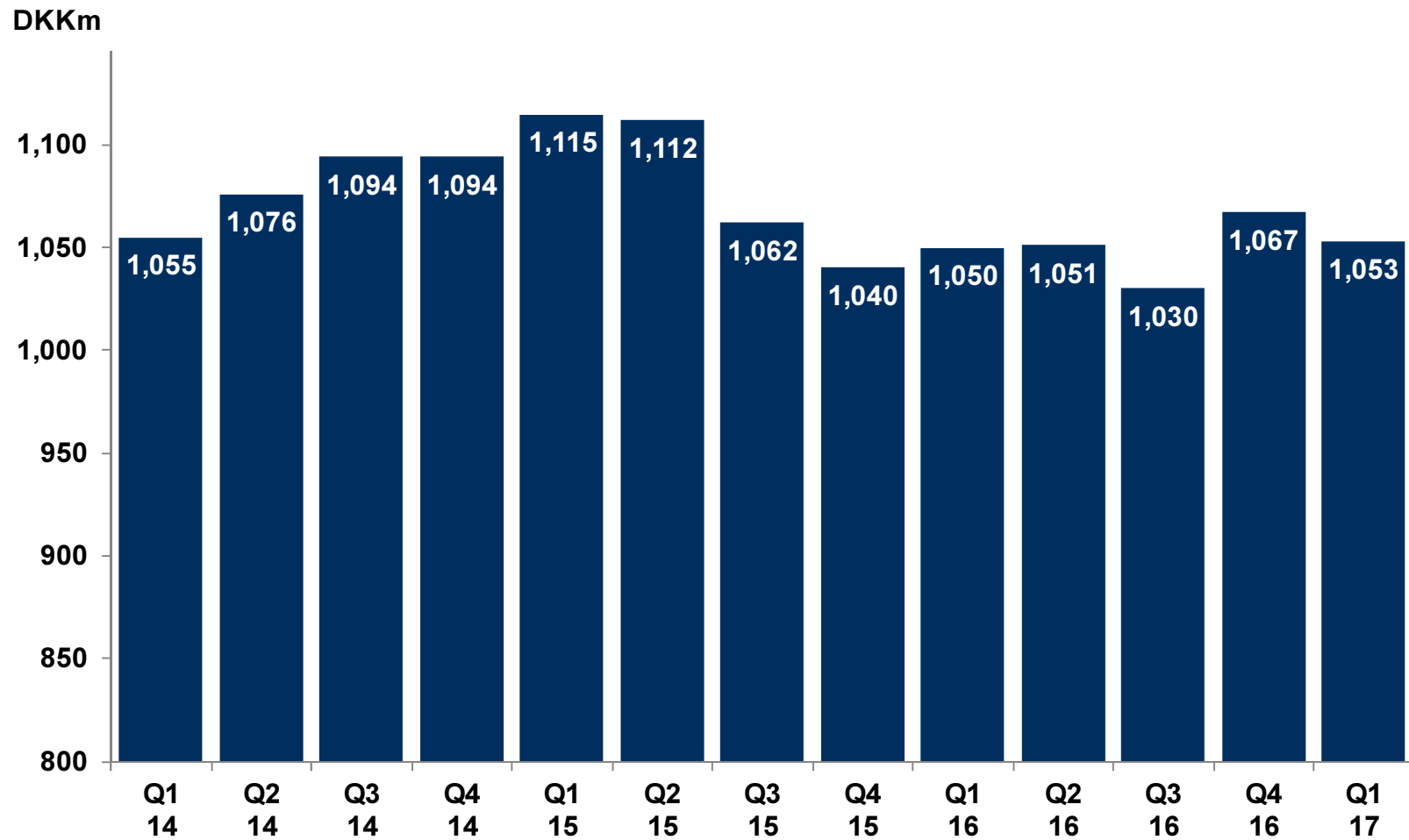
- Net interest income down by 12% – 1% due to number of days – 4% due to funding agreement mortgage-like loans
- Mortgage credit up by 49%
- Remortgaging and loan fees up by 23%
- Asset management up by 24%
- Other items overall up by 4%.

### Key points Q1 17 vs Q4 16:

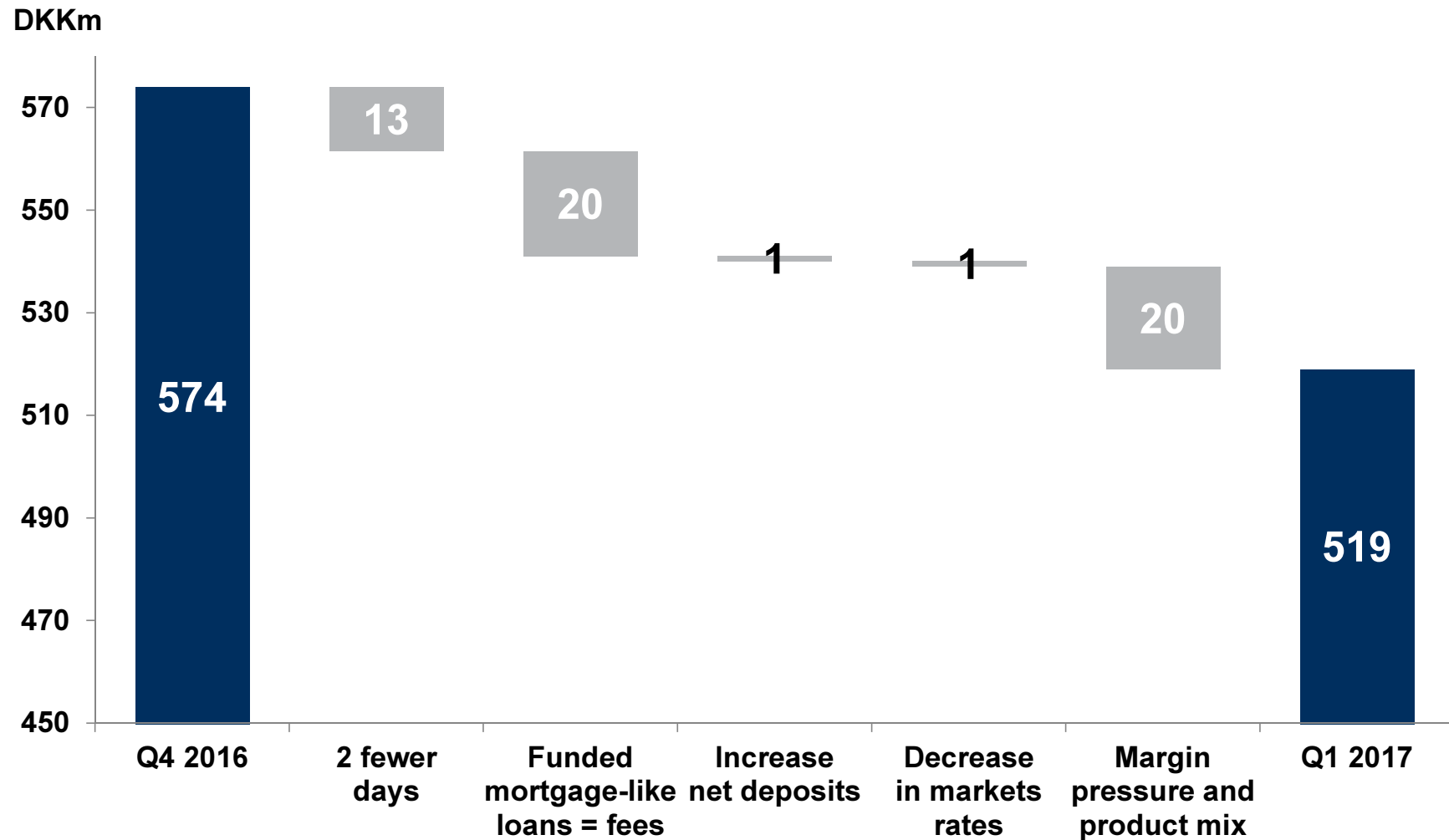
- Net interest income down by 10%
- Mortgage credit up by 21%
- Remortgaging and loan fees at a normalised level in Q1 2017
- Asset management down by 27% attributable to performance-related income in Q4 2016
- Other items overall up by 3%.

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## Core income has been relatively stable



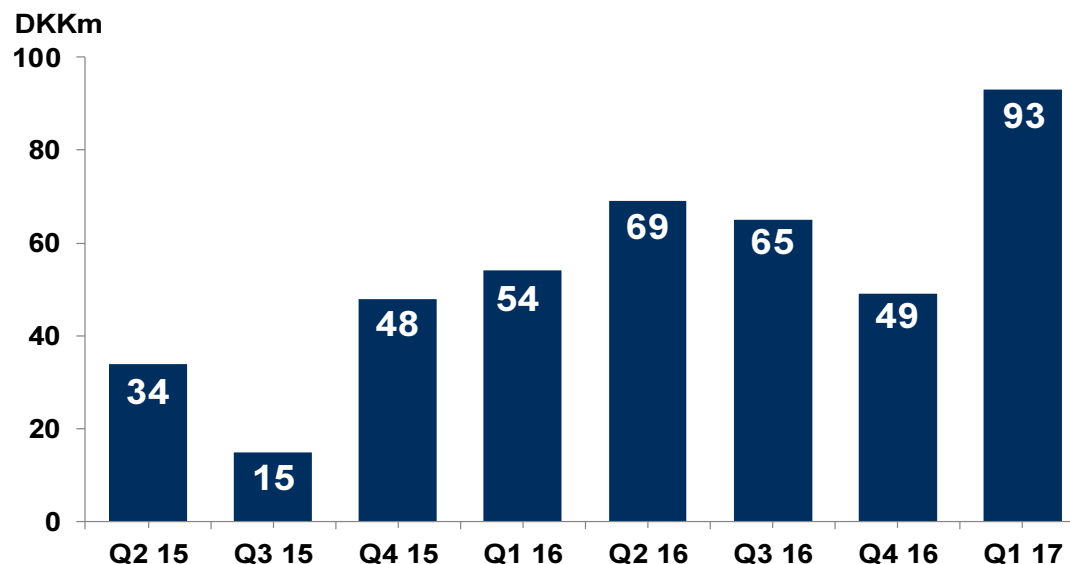
## Net interest income etc – development from Q4 2016 to Q1 2017



## Trading income – very satisfactory earnings in Q1 2017

### Key points:

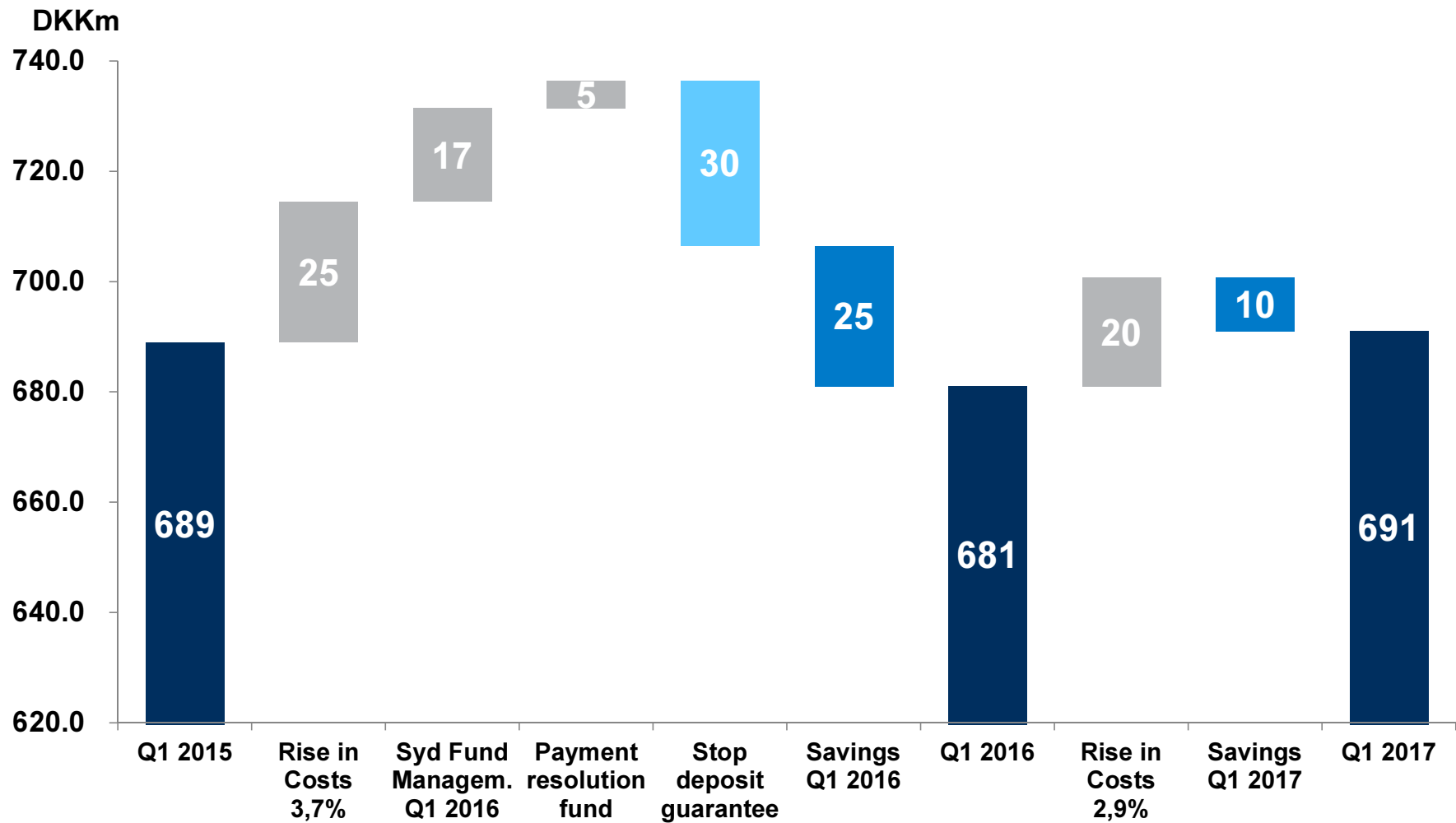
- DKK 93m recorded in Q1 2017 vs DKK 49m in Q4 2016
- In Fixed Income there was considerable trading activity as regards mortgage bonds as well as corporate bonds in Q1 2017
- In Equities activity was at a satisfactory level in Q1 2017.



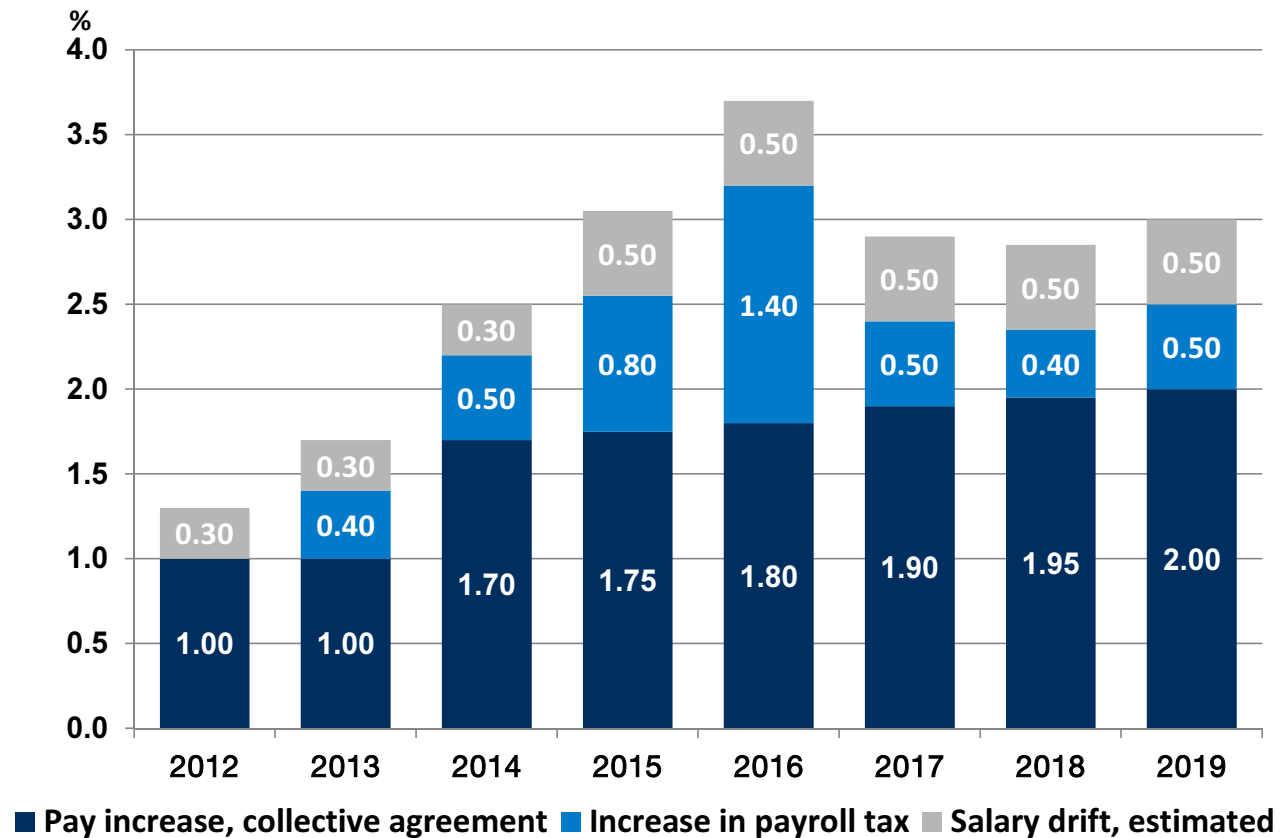
### Trading income

DKKm	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17
Fixed Income	1	-4	13	26	39	45	25	62
Equities	18	8	25	20	19	14	12	22
Money Market and Foreign Exchange	15	11	10	8	11	6	12	9
<b>Total</b>	<b>34</b>	<b>15</b>	<b>48</b>	<b>54</b>	<b>69</b>	<b>65</b>	<b>49</b>	<b>93</b>

## Costs (core earnings) – savings of DKK 10m vs Q1 2016



## Annual increase in staff costs – effect of collective agreement, payroll tax and salary drift

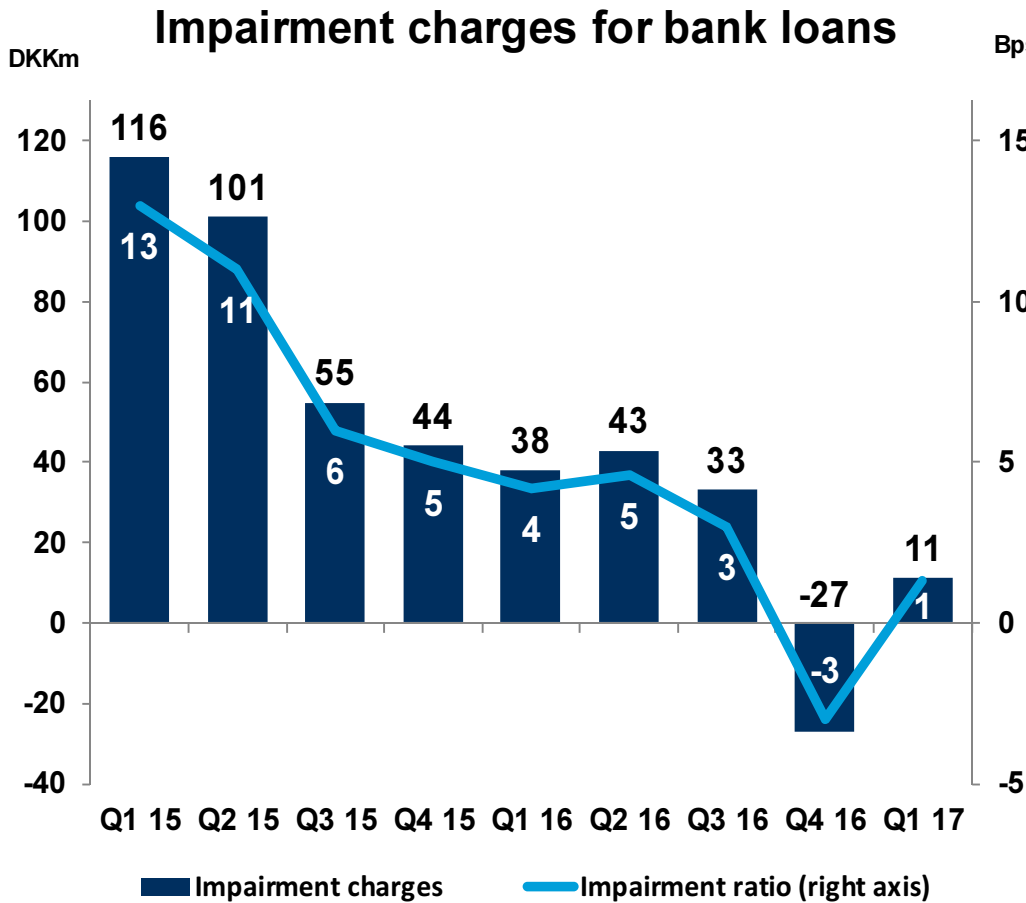


Total increase in staff costs incl individual adjustments:

- 2015 = 3.05%
- 2016 = 3.70%
- 2017 = 2.90%
- 2018 = 2.85%
- 2019 = 3.00%



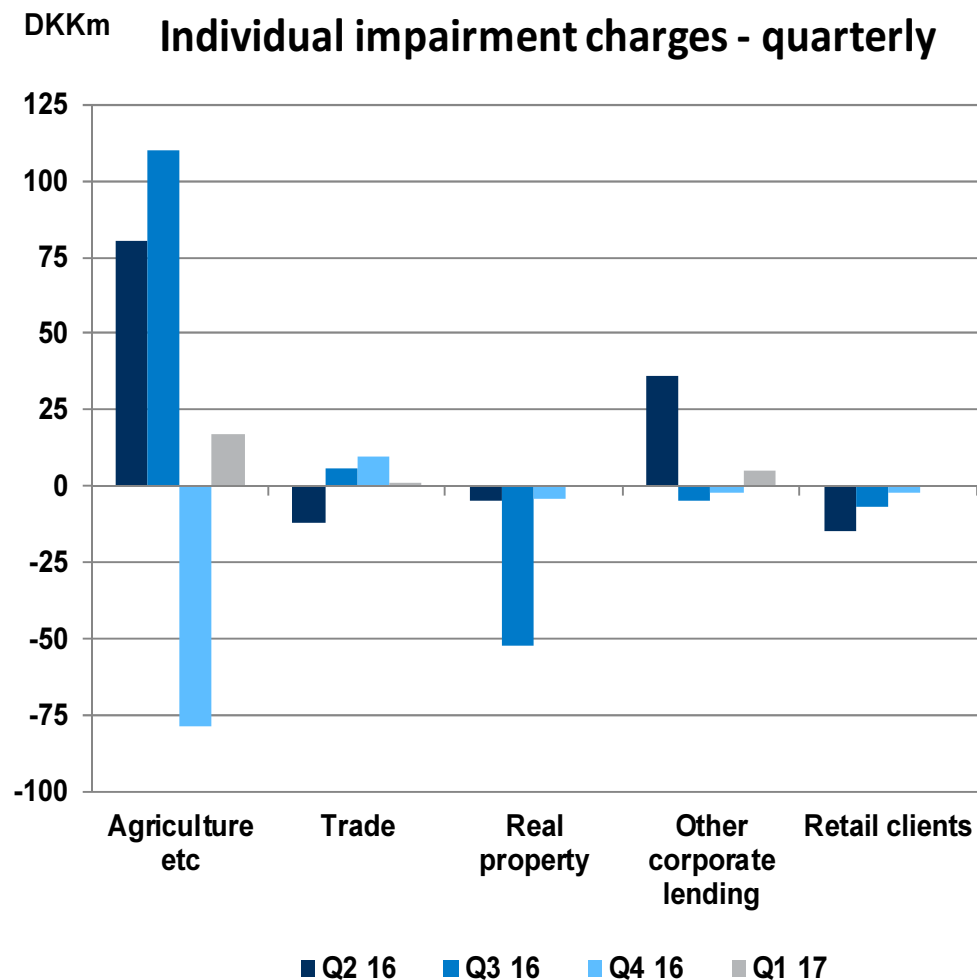
# Impairment charges constitute DKK 11m in Q1 2017, equal to 1bp



Impairment charges represent:

- 1bp in Q1 17, down from 4bps in Q1 16
- 1bp in Q1 17 up from -3 bps in Q4 2016.

## Low impairment charges for all industries in Q1 2017



### Key points Q1 2017:

- Individual impairment charges as regards agricultural exposures represent DKK 17m. Impairment charges total DKK 23m in Q1 2017
- Collective impairment charges regarding agricultural exposures represent an unchanged DKK 150m at end-Q1 2017.

### Quarterly impairment charges

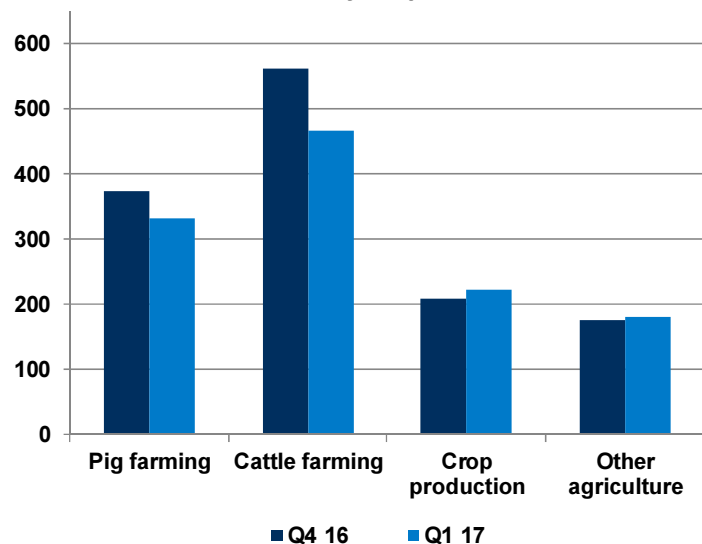
DKKm	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17
Agriculture etc	-25	120	80	110	-79	17
Trade	17	10	-12	6	10	1
Real property	10	21	-5	-52	-4	0
Other corporate lending	5	8	36	-5	-2	5
Total corporate lending	7	159	99	59	-75	23
Retail clients	-20	-14	-15	-7	-2	0
Individual impairments	-13	145	84	52	-77	23
Collective impairments	57	-107	-41	-19	50	-12
<b>Total impairments</b>	<b>44</b>	<b>38</b>	<b>43</b>	<b>33</b>	<b>-27</b>	<b>11</b>

## Agriculture – impairment ratio has dropped to 15.2% at end-Q1 2017 – as a result of the conversion activity with subsequent write-offs

### Key points:

- In Q1 2017 loans and advances dropped by DKK 166m from year-end 2016. DKK 67m concerns write-off of debt for accounting purposes.
- Impaired loans and advances fell by DKK 120m, equal to a reduction of 2,4 percentage points in loans and advances.
- 15.2% of loans and advances impaired at end-Q1 2017 compared to 15.9% at year-end 2016.

DKKm Individually impaired loans



### 31 March 2017

DKKm	Pig farming	Cattle farming	Crop production	Other agriculture	Total
Bank loans	1,396	1,213	1,229	1,134	4,972
Individual impairment charges	134	284	83	104	605
Collective impairment charges	25	100		25	150
<b>Loans after impairment charges</b>	<b>1,237</b>	<b>829</b>	<b>1,146</b>	<b>1,005</b>	<b>4,217</b>
Impaired bank loans	332	466	223	180	1,201
Impaired as % of bank loans	23.8	38.4	18.1	15.9	24.2
Impairment as % impaired loans	40.4	60.9	37.2	57.8	50.4
Impairment as % bank loans	11.4	31.7	6.8	11.4	<b>15.2</b>

### 31 December 2016

DKKm	Pig farming	Cattle farming	Crop production	Other agriculture	Total
Bank loans	1,428	1,364	1,220	1,126	5,138
Individual impairment charges	167	321	83	95	666
Collective impairment charges	25	100		25	150
<b>Loans after impairment charges</b>	<b>1,236</b>	<b>943</b>	<b>1,137</b>	<b>1,006</b>	<b>4,322</b>
Impaired bank loans	592	996	103	200	1,891
Impaired as % of bank loans	41.5	73.0	8.4	17.8	36.8
Impairment as % impaired loans	28.2	32.2	80.6	47.5	35.2
Impairment as % bank loans	13.4	30.9	6.8	10.7	<b>15.9</b>

## Agriculture – status of debt conversion under "The Sydbank model"

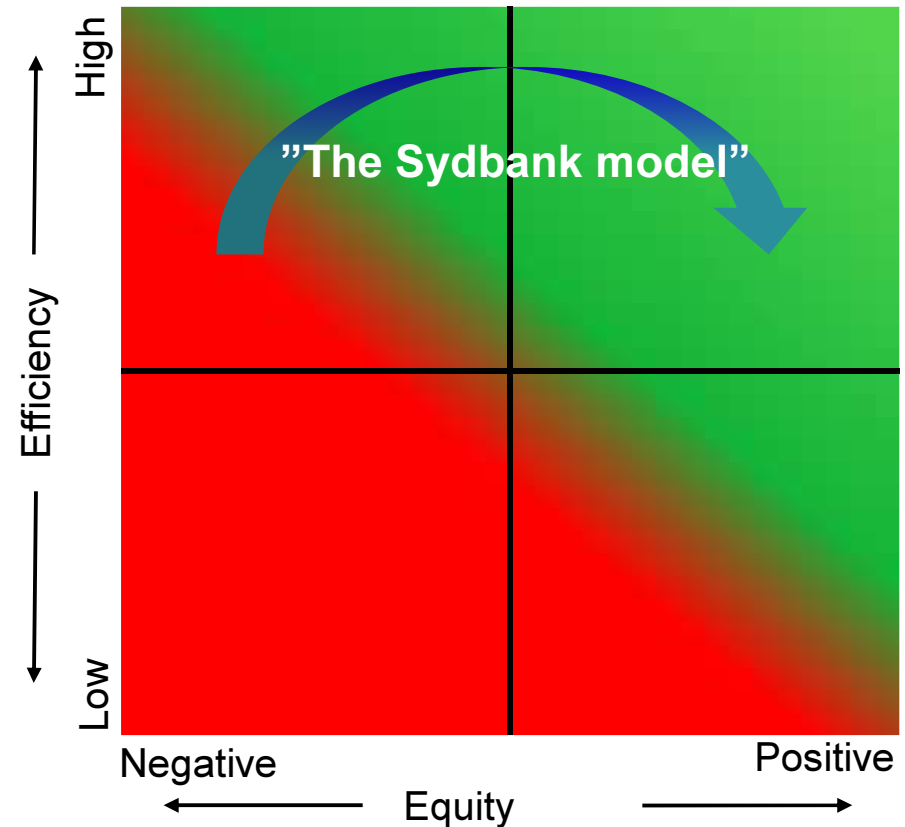
At end-Q1 2017 55 efficient and indebted agricultural exposures have converted bank loans and advances of DKK 565m to subordinated loan capital.

The loan capital may be redeemed by the farmer after 5 years at a fixed discount and is interest-free during the period.

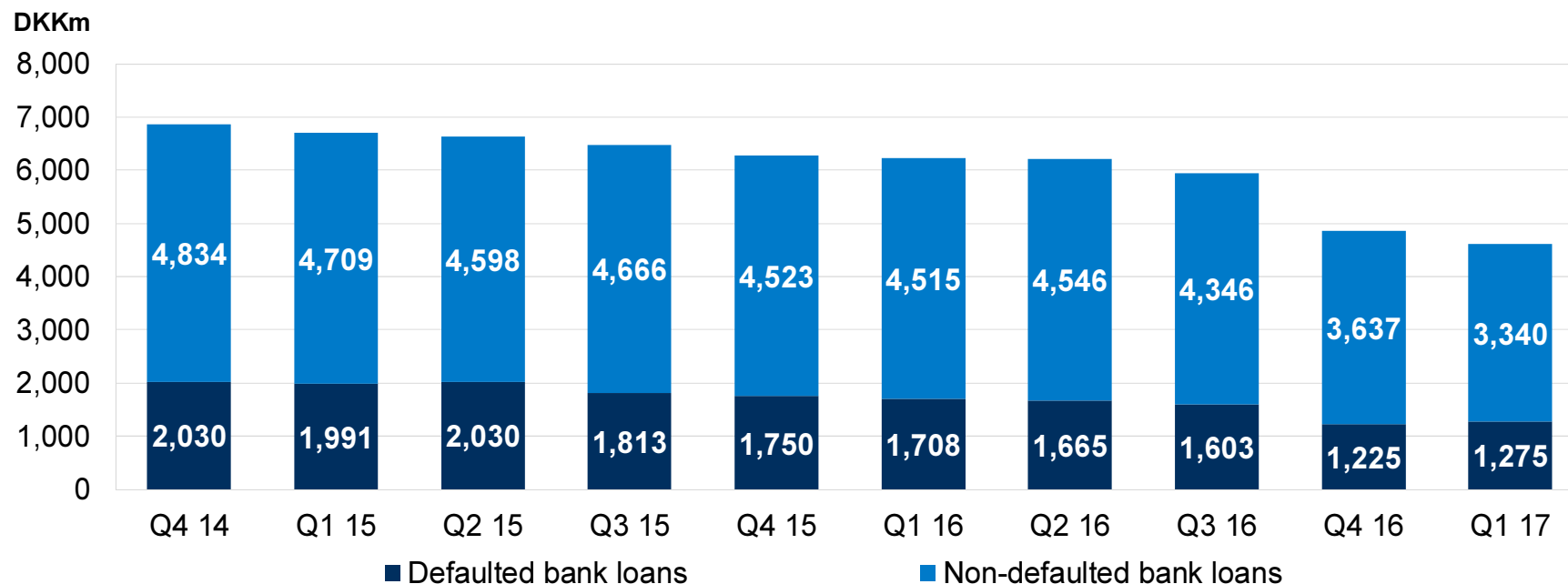
The subordinated loan capital has been written off in the Bank's financial statements.

Under "the Sydbank model" the farmer's total capital – equity + subordinated capital – becomes positive.

The solution has been offered exclusively to farmers with high efficiency and negative equity.



## Impaired bank loans – down for 12th consecutive quarter

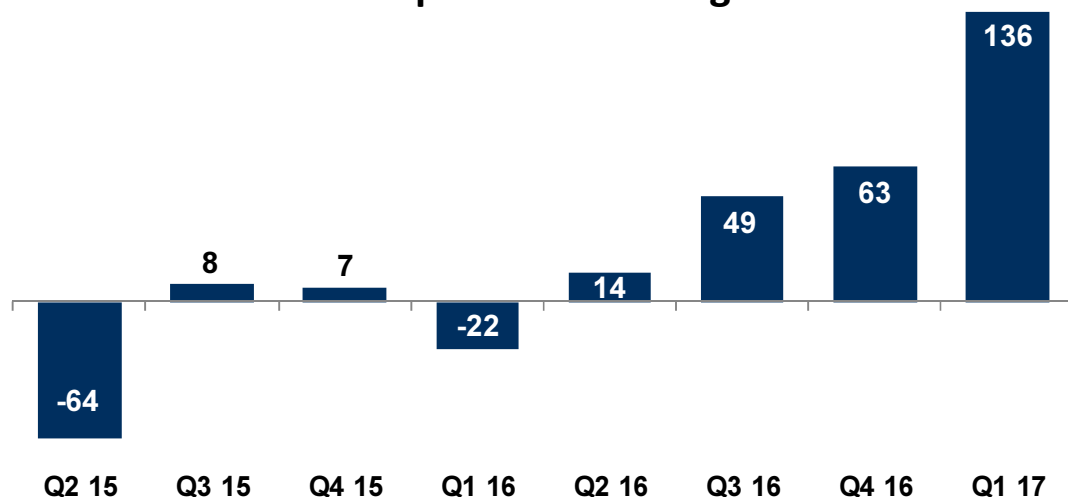


### Individually impaired bank loans

DKKm	31 Mar 2016	31 Dec 2016	31 Mar 2017
Non-defaulted bank loans	4,515	3,637	3,340
Defaulted bank loans	1,708	1,225	1,275
Impaired bank loans	6,223	4,862	4,615
Impairment charges for bank loans subject to individual impairment	3,485	2,726	2,613
Impaired bank loans after impairment charges	2,738	2,136	2,002
Impaired bank loans as % of bank loans before impairment charges	7.8	6.1	6.2
Impairment charges as % of bank loans before impairment charges	4.4	3.4	3.5
Impairment as % of impaired bank loans	56.0	56.1	56.6
Impairment as % of defaulted bank loans	204.0	222.5	204.9

## Investment portfolio earnings – very satisfactory result for Q1 2017

Investment portfolio earnings – DKKm



Investment portfolio earnings

DKKm	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17
Position-taking	17	-26	-5	40	91	89
Liquidity generation and reserves	-8	11	18	4	-24	39
Strategic positions	0	-5	3	6	-2	10
Costs	-2	-2	-2	-1	-2	-2
<b>Total</b>	<b>7</b>	<b>-22</b>	<b>14</b>	<b>49</b>	<b>63</b>	<b>136</b>

Investment portfolio earnings for Q1 2017 represent DKK 136m compared with negative earnings of DKK 22m in Q1 2016.

The result of DKK 136m in Q1 2017 regarding investment portfolio earnings is highly satisfactory and provides a very good start to 2017.

The high investment portfolio earnings in Q1 2017 are a consequence of the narrowing credit spreads on mortgage bonds as well as gains on interest rate fluctuations.

The risk continues to be composed so that the Bank will profit from an interest rate increase.

## Income statement – very satisfactory start to 2017 – ROE of 15.5%

DKKm	Q1 2017	Q1 2016	Index	Q1 2017	Q4 2016	Index
Core income	1,053	1,050	100	1,053	1,067	99
Trading income	93	54	172	93	49	190
<b>Total income</b>	<b>1,146</b>	<b>1,104</b>	<b>104</b>	<b>1,146</b>	<b>1,116</b>	<b>103</b>
Costs, core earnings	691	681	101	691	632	109
<b>Core earnings before impairment</b>	<b>455</b>	<b>423</b>	<b>108</b>	<b>455</b>	<b>484</b>	<b>94</b>
Impairment of loans and advances etc	11	38	29	11	-27	-
<b>Core earnings</b>	<b>444</b>	<b>385</b>	<b>115</b>	<b>444</b>	<b>511</b>	<b>87</b>
Investment portfolio earnings	136	-22	-	136	63	216
<b>Profit before non-recurring items</b>	<b>580</b>	<b>363</b>	<b>160</b>	<b>580</b>	<b>574</b>	<b>101</b>
Non-recurring items, net	-6	-	-	-6	-14	-
<b>Profit before tax</b>	<b>574</b>	<b>363</b>	<b>158</b>	<b>574</b>	<b>560</b>	<b>103</b>
Tax	127	80	159	127	116	109
<b>Profit for the period</b>	<b>447</b>	<b>283</b>	<b>158</b>	<b>447</b>	<b>444</b>	<b>101</b>
Costs (core earnings) / total income, C/I	0.60	0.62		0.60	0.57	
Return on equity, ROE full-year basis	15.5	10.1		15.5	15.3	
Earnings per share, EPS	6.4	4.0		6.4	6.4	

### Key points Q1 17 vs Q1 16:

- Core income at an unchanged level
- Costs (core earnings) up by 1%
- Impairment charges down by 71% from 4bps to 1bp
- Core earnings up by 15%
- Very high investment portfolio earnings.

### Key points Q1 17 vs Q4 16:

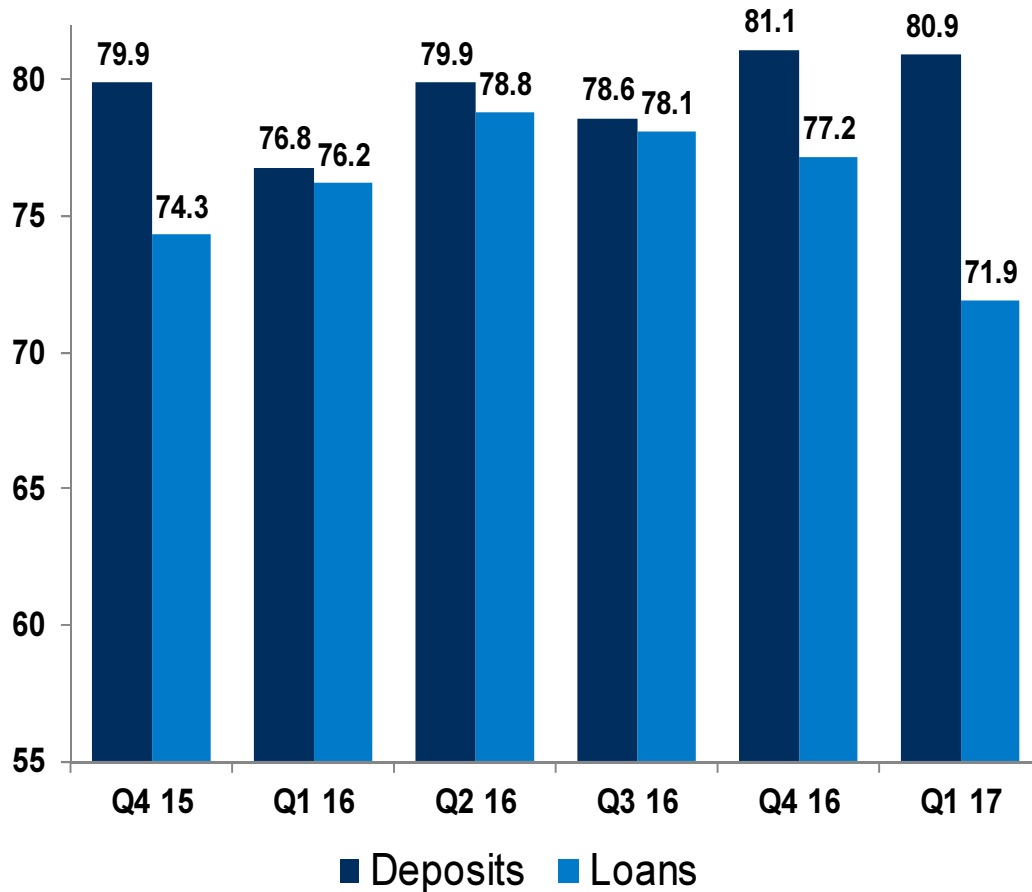
- Core income down by 1%
- Total income up by 3%
- Costs (core earnings) up by 9% .

### Non-recurring items:

- Costs of DKK 6m related to "Blue growth" projects.

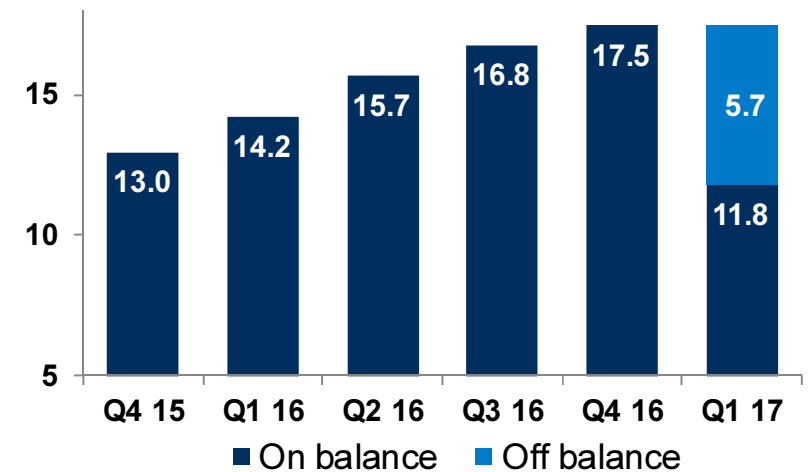
# Loans and advances effectively rise by DKK 0.4bn in Q1 2017 – adjusted for funded mortgage-like loans

DKKbn



- Loans and advances have declined by DKK 5.3bn in Q1 2017 – adjusted for funded mortgage-like loans of DKK 5.7bn, loans and advances effectively rise by DKK 0.4bn in the quarter, equal to 0.5%
- Mortgage-like loans incl funded mortgage-like loans are at the same level at end-March 2017 as at year-end 2016
- Deposits remain at an unchanged level.

DKKbn **Mortgage-"like" loans**





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## Change of joint funding agreement results in decrease in loans in Q1 2017

- The Bank's agreement on joint funding with Totalkredit was changed effective as of 1 January 2017.
- The agreement was changed from an offsetting model according to which the Bank covers losses as regards the entire loan to a guarantee model according to which the Bank provides a guarantee for the part of the loans in the LTV range of 60-80%.
- The Bank no longer has a credit risk as regards the part of the loans in the LTV range of 0-60%.
- As a consequence of the amendment of the agreement, funded bank loans are no longer recognised in the Bank's balance sheet.
- Funded mortgage loans amount to DKK 5.7bn at 31 March 2017.
- Instead the Bank has provided guarantees for DKK 1.2bn as regards the part of the loans in the LTV range of 60%-80%.
- As at 1 April 2017 funded mortgage-like loans have increased to DKK 6.4bn.

## Capital ratios decreased in Q1 2017 – as a result of a new share buyback programme of DKK 664m as well as the announced repayment of Additional Tier 1 capital

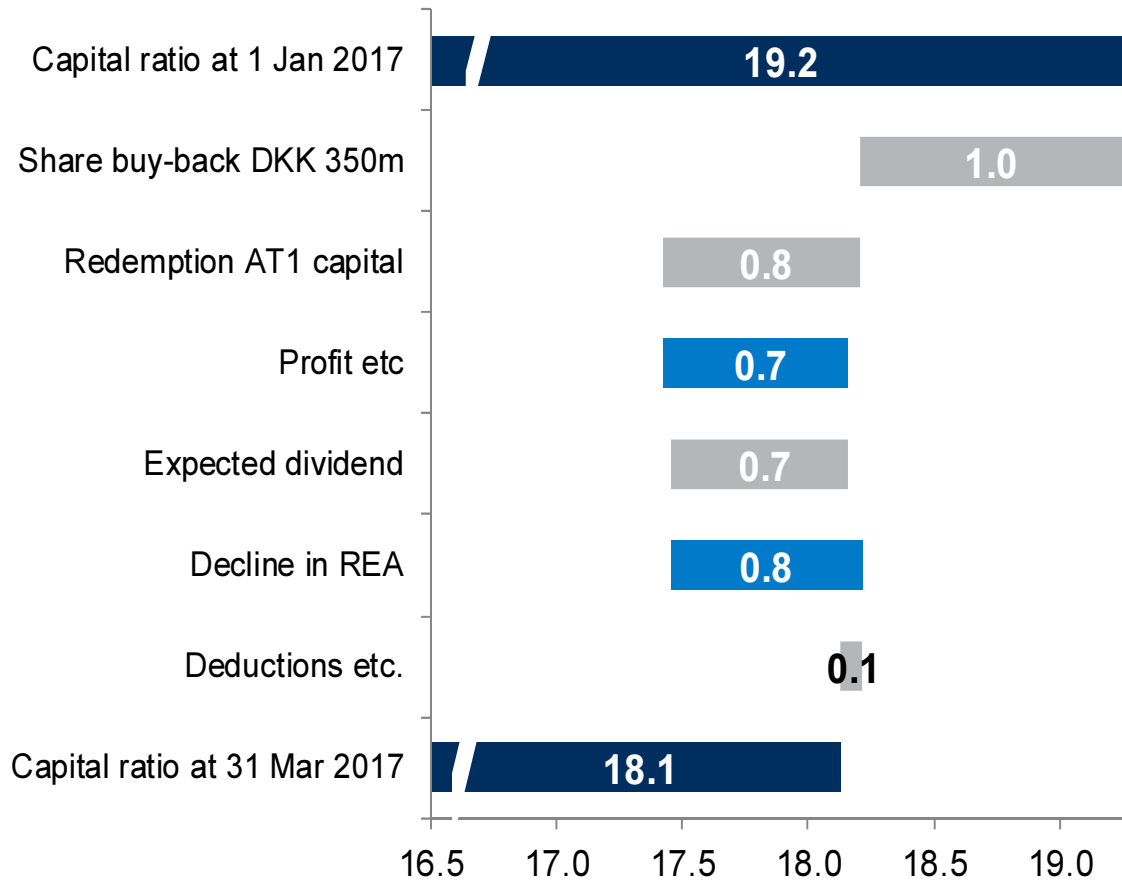
DKKm	Q4 2014	Q4 2015	Q4 2016	Q1 2017 De facto	
Credit risk	49,417	44,931	41,683	40,677	40,677
Market risk	8,003	8,876	8,075	6,682	6,682
Operational risk	8,575	8,173	8,025	8,025	8,025
Other exposures incl CVA	6,472	5,975	5,824	5,571	5,571
Risk exposure amount	72,467	67,955	63,607	60,955	60,955
CET1	10,101	9,852	10,213	9,505	9,729
Tier 1	11,209	10,825	11,044	9,783	10,007
Total capital	11,596	11,984	12,242	11,030	11,254
CET1 ratio	13.9	14.5	16.1	15.6	16.0
Tier 1 ratio	15.5	15.9	17.4	16.0	16.4
Capital ratio	16.0	17.6	19.2	18.1	18.5
Individual solvency need	10.4	9.7	10.2	10.2	10.2

### Key points Q1 2017:

- The implemented share buyback programme of DKK 664m has reduced capital ratios by 1.0 in Q1 2017
- The announced repayment of Additional Tier 1 capital totalling DKK 828m has reduced the capital ratio by 0.8
- The large reduction in risk-weighted assets is mainly attributable to market risk
- Overall the Common Equity Tier 1 capital ratio has decreased by 0.5 in Q1 2017
- Profit for the period is not included in the calculation of capital
- 50% of profit for the period is recognised under “de facto”.

DKKm	Q4 2014	Q4 2015	Q4 2016	Q1 2017
Corporate, IRB	36,384	32,241	30,306	29,459
Retail, IRB	9,355	9,583	9,200	8,931
Corporate, STD	1,274	767	605	479
Retail, STD	1,182	553	648	654
Credit institutions etc.	1,222	1,787	924	1,154
<b>Credit risk total</b>	<b>49,417</b>	<b>44,931</b>	<b>41,683</b>	<b>40,677</b>

## Capital ratio development in Q1 2017 – profit for Q1 2017 is not included in the calculation of the capital ratio



### Key points:

- The implemented share buyback programme of DKK 664m has reduced the capital ratio by 1.0
- The announced repayment of Additional Tier 1 capital has reduced the capital ratio by 0.8
- The reduction in risk exposure is mainly attributable to market risk and credit risk.

## Status – targets

Target	Objective	Status 31 March 2017	Comment
Return on shareholders' equity after tax	Over 12%*	15.5%	Progressing as planned
Customer satisfaction - Corporate	Top 3 **	3rd - Aalund	Met in 2016
Customer satisfaction - Retail	Top 3 **	5th - EPSI	Not met in 2016
Common Equity Tier 1 capital ratio	Around 13.5%	15.6%	Met from Q3 2015
Capital ratio	Around 17.0%	18.1%	Met from Q1 2015
Dividend	30-50% of profit for the year after tax	50% of profit for the year after tax in 2016	Met in 2016

\* or top 3 ranking among the 6 largest banks

\*\* among the 6 largest banks

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## Outlook for 2017

- Based on the level of interest rates at the beginning of 2017, core income is expected to be on a par with the core income generated in 2016.
- Trading income is projected to remain unchanged relative to income in 2016 but is dependent on financial market developments.
- As a consequence of general pay rises for the financial sector and a payroll tax increase of 0.5%, costs (core earnings) are expected to rise slightly despite the measures implemented.
- Impairment charges for 2017 are forecast to be on a par with the impairment charges recorded for 2016. The uncertainty surrounding price developments in the agricultural sector may however affect impairment charges.
- As a result of intensified digitisation of the Bank as well as the establishment of a new mortgage platform non-recurring costs are expected to represent around DKK 75m.

Questions

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Thank you

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## Forward-looking statements

- This presentation contains statements concerning expectations of future developments, including future income as well as expected business events.

Such statements are by their nature uncertain and associated with risks as many factors – of which some may be beyond Sydbank's control – may cause the actual developments to deviate materially from management's expectations as expressed in this presentation.